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PLAN OF ACTION

Note by the UNCTAD secretariat

The attached document is circulated at the request of H.E. Mr. Nacer Benjelloun-Touimi, Permanent Representative of Morocco to the United Nations Office at Geneva, in his capacity as Chairman of the Group of 77 Preparatory Committee for UNCTAD X and representative of the host country of the Ninth Ministerial Meeting of the Group of 77 and China, held in Marrakech, Morocco, from 13 to 16 September 1999.

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Transmittal note

Dear Mr. President,

As you will certainly recall, the Ninth Ministerial Meeting of the Group of 77 and China, held in Marrakech from 13 to 16 September 1999, decided to mandate the Preparatory Committee of the Group of 77 in Geneva to enter into discussions and negotiations with other regional groups and countries on the basis of the Plan of Action (PC/77(IX)/1) and the draft Bangkok Consensus (PC/77(IX)/2), bearing in mind the views expressed during the Ninth Ministerial Meeting.

In my capacity as Chairman of the Preparatory Committee and representative of the host country for the Ninth Ministerial Meeting, I have the honour to inform you that the Committee has now completed its review of the two texts in question in the light of the Marrakech Ministerial decision and has decided that these texts, as revised by the Committee, should be transmitted to the Preparatory Committee of the Whole to be established by the Board, with the request that the latter consider using them as the basis for the pre-conference text for UNCTAD X.

I would therefore be grateful if these texts could be issued as official documents of the Preparatory Committee of the Board and that the Committee should be informed of the request of the Preparatory Committee of the Group of 77 and China.

Please accept, dear Mr. President, the assurances of my very highest consideration.

Nacer Benjelloun-Touimi
Permanent Representative of Morocco
Chairman of the G-77 Preparatory Committee for UNCTAD X

His Excellency Mr. Chak Mun See
Ambassador
Permanent Representative of Singapore to the
United Nations Office at Geneva
President of the Trade and Development Board

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I. DEVELOPMENT STRATEGIES IN AN INCREASINGLY INTERDEPENDENT WORLD: APPLYING THE LESSONS OF THE PAST TO MAKE GLOBALIZATION AN EFFECTIVE INSTRUMENT FOR THE DEVELOPMENT OF ALL COUNTRIES AND ALL PEOPLE

A. Evaluation of the developmental impact of globalization

1. With the acceleration in the pace of globalization in the early 1990s came the expectation that growth and development based on global market forces would be more rapid, more sustainable and more widely shared than in the past, allowing developing countries to narrow the gap with industrial countries and the poorest sections of society to close the income gap with the rich. However, the empirical record has until now fallen short of this expectation. Global economic growth in the 1990s has remained below the post-war average, the income gap between the developed and the developing countries has grown wider, and the prospect of marginalization is becoming increasingly real. This has been accompanied by increasing income inequality within countries, along with increased job and income insecurity and financial instability. These tendencies have been compounded by a series of unexpected financial crises which have affected the global economy with increasing frequency and intensity in the 1990s.

2. There is a growing awareness that the Washington consensus, the yardstick by which development strategies have been conducted in the last decades at the instigation of the multilateral financial institutions, has severe limitations for the development process. It is therefore necessary for the international community to elaborate a new conceptual framework for development designed to overcome the negative effects of economic and financial globalization and also to take full account of broader development goals.

3. Recent experience suggests that no simple economic law will make developing countries converge automatically towards the income levels of developed countries. This is a result of the operation of market forces in a world of asymmetries and imbalances. The most striking asymmetry in the globalization process lies in the uneven distribution of economic power in the world economy. A second set of imbalances exists among the international economic forces themselves. The fast pace of financial liberalization has delinked finance from international trade and investment. A premium has been placed on liquidity and the speedy entry into and exit from financial markets in search of quick gains. The growing volatility of capital flows follows from these developments.

4. Given these asymmetries in the world economy, the extent and the ordering of liberalization have also tended to have unbalanced outcomes. In trade, despite the liberalization process, many areas of export interest to developing countries remain heavily protected. Equally, labour markets have also remained protected in the developed countries, while capital markets have opened up in the developing countries. Moreover, skilled labour has become more mobile whereas unskilled labour continues to face important constraints. If this continues, developing countries will be unable to build competitiveness in those sectors where real and sustainable growth opportunities are most likely.

5. Finally, orthodox approaches have not helped developing countries to manage their integration into the world economy effectively. Liberalization of trade, domestic financial markets and the capital account have not yet delivered the anticipated recovery and growth. In the industrial countries, policy weaknesses have been one of the significant elements in these orthodox approaches. Tight macroeconomic policies have favoured capital against labour and finance against industry. Also, protectionist sentiment has emerged once again in some sectors, increasingly in the guise of technical standards and environmental and social concerns.

6. Globalization nevertheless remains a potentially powerful and dynamic force for growth and development. It is an evolving process which presents not only risks and challenges but also opportunities. In order to ensure that it can contribute to laying the foundations for enduring and coherent development, intensified international cooperation as well as countries' own national and collective efforts will be essential to address effectively the shortcomings of the external environment and the constraints of underdevelopment.

B. Stocktaking of major international initiatives and developments

(i) Uruguay Round

7. The Uruguay Round of Multilateral Trade Negotiations resulted in improvements in market access, as well as in the security of market access, for both goods and services. In addition, the dispute settlement mechanism of the WTO in principle provides WTO member countries with effective recourse to defend their market access rights. In addition, within the framework of the general liberalization process, the developing countries have taken autonomous measures which have made a positive contribution to the liberalization process.

8. However, the Uruguay Round negotiations focused on achieving tariff liberalization but left tariff peaks and escalation in a significant number of products, especially those which are of interest for developing countries. Furthermore, the tariffication of quotas and other non-tariff measures in the agricultural sector was reflected in a number of high tariffs, with the real access opportunities in many sectors being provided only within tariff quotas. The textile and clothing sector, of vital interest to many developing countries, is subject to quantitative restrictions until 2005, and there has been no meaningful liberalization of existing quotas. Transitional safeguards have not been applied as sparingly as possible, there has been a proliferation of antidumping action which leads to harassment, as well as other trade measures in such areas as rules of origin, while the growth-on-growth factor has not provided significant benefits.

9. The Uruguay Round Agreements relating to sanitary and phytosanitary standards and to technical barriers to trade developed a set of rules to impede the use of those standards as obstacles to trade, but they did not develop a set of rules to which the relevant international standard-setting bodies should adhere in the process of standard-setting. Nor did they provide for internationally financed regional or subregional certification institutions, or for the transfer of the technology needed to fulfil the standards required by importing countries.

10. The improved market access and increased market penetration resulting from the Uruguay Round have given rise to more intense demands from domestic producers in many developed countries for "trade remedies", in the form of contingency measures, including safeguards, anti-dumping duties and countervailing duties. The most affected sectors include metals, plastics, textiles and clothing, footwear and headwear. Among these are the main products of export interest for low-income developing countries and LDCs, as well as the structurally weak, vulnerable and small economies.

11. The Uruguay Round produced Agreements, including those on Subsidies and Countervailing Measures, TRIPS and TRIMs. The provisions on special and differential treatment in favour of developing countries contained in these agreements need to be further expanded and strengthened. The experience to date with implementation of these agreements has revealed existing and potential imbalances which could affect the industrialization and economic stability of the developing countries; it is therefore necessary to review their development-related provisions.

12. The GATS provides a very useful framework for liberalization, but the actual degree of market access commitments on trade in services entered into by countries varies considerably among sectors, and in relation to individual modes of supply; market access conditions for commercial presence have been emphasized, rather than the movement of service providers as natural persons. Countries have also negotiated exemptions from MFN under the GATS, and attached them as lists of exemptions thereto. Considerable scope thus remains for further liberalization in a range of service sectors, particularly those of special interest to developing countries.

13. The GSP remains an important instrument for potential further liberalization of market access for many developing countries, although individual GSP schemes suffer from excessively restrictive conditions, and preferential benefits have been eroded as a result of MFN tariff reductions. Certain developing countries benefit from special preferential arrangements such as the Lomé Convention and the Caribbean Basin Initiative (CBI). Moreover, improved market access for developing countries' exports to each other's markets has been achieved through regional agreements, which have built upon the increased disciplines and tariff concessions resulting from the Uruguay Round, although in some cases the effective incorporation of services into these agreements remains to be achieved. With regard to the relationship between developing countries' regional agreements and the multilateral trading system, the importance of regional and subregional integration is recognized. Such arrangements facilitate trade and investment flows, economies of scale, economic liberalization and the integration of their members into the system of international economic relations within a framework of open regionalism, enabling progress towards a more open multilateral system.

(ii) UN-NADAF

14. The primary objective of UN-NADAF was the accelerated transformation, integration, diversification and growth of African economies, the reduction of vulnerability to external shocks, enhanced self-reliance and dynamism, and internalization of the process of development. At the 1996 mid-term review of the implementation of UN-NADAF, the General Assembly recognized the advances made by many African countries in economic reform and adjustment, as well as the

intensification of the democratization process and the strengthening of civil society. Notwithstanding these efforts, Africa's economic and social problems remain acute, and many of the commitments made by the international community remain unfulfilled. These commitments include the reduction of African debt, higher levels of resource flows, provision of greater market access and assistance in diversification and capacity-building.

15. Despite the HIPC initiative, the debt overhang of African countries remains a major obstacle to their development, with debt servicing absorbing 40 per cent of their revenues, crowding out national investment in human and physical infrastructure.

16. African countries continue to be dependent on a handful of commodities for their export earnings and development, and commodity prices have fallen considerably since last year. Expectations of increased levels of savings and investment are therefore very low. With the paucity of FDI flows, African countries continue to rely on ODA to bridge the investment gap, yet ODA has fallen to an all-time low, representing less than 0.2 per cent of the total GDP of Development Assistance Committee (DAC) countries, that is, well below one-third of the target established by the international community. Moreover, emergency relief is absorbing a greater portion of aid budgets. The continued failure of the international community to meet aid targets is a major source of concern.

17. As to the question of market access, the MFN duties that are applied to textiles, clothing and shoes in some developed country markets remain high, and quotas continue to apply. Sanitary and phytosanitary measures are too stringent. Tariffs remain high, and special agricultural safeguard measures vis-à-vis African imports persist. No substantial improvements have been made in GSP schemes.

(iii) Least developed countries

18. The Programme of Action for the Least Developed Countries for the 1990s embodied a solemn commitment to arrest and reverse the decline in the socioeconomic condition of LDCs, but the 1995 High-Level Intergovernmental Meeting on the Mid-term Global Review on the Implementation of the Programme of Action and subsequent reviews by the Trade and Development Board clearly showed that the commitments contained in the Programme of Action have to a large extent not been implemented. As a result, the national policy reform and adjustment programmes adopted by the LDCs themselves have not produced their full benefits and in some cases have had a negative impact.

19. At the national level, the development of LDCs has been constrained by shortcomings in physical infrastructure and human resources development, low levels of domestic resource mobilization, shortcomings in macroeconomic policy design and management, a high rate of population growth, a generally disappointing performance in the agricultural and rural sector, an inability to adequately mainstream women as full agents and beneficiaries of development, and a lack of appropriate legal and institutional frameworks for the promotion of private entrepreneurship.

20. Overall, the external environment facing LDCs has also remained difficult. In 1997 their share in world exports and imports fell to 0.4 per cent and 0.6 per cent respectively, and their

economies continue to be vulnerable to instability in commodity markets, the prices and terms of trade of which have declined unabated. Official development assistance, on which LDCs depend principally for their external financing, registered a sharp decline during the 1990s, and the aid outlook remains uncertain. The LDCs' external debt burden continues to be unsustainably high, amounting to about 90 per cent of their combined GDP. Twenty-nine LDCs are included in the group of 41 countries identified as heavily indebted poor countries (HIPC), but progress in meeting the eligibility requirements of this debt relief initiative is slow.

21. The development of LDCs has also been limited by their continued vulnerability to natural disasters, and where natural disasters have occurred, efforts have often concentrated on immediate disaster relief, without fully addressing the requirements of long-term reconstruction.

22. The High-Level Meeting on Integrated Initiatives for the Least Developed Countries' Trade Development convened by WTO in 1997 endorsed the Integrated Framework for Trade-Related Technical Assistance, including for Human and Institutional Capacity Building, to Support Least Developed Countries in their Trade and Trade-Related Activities. However, implementation of the integrated framework has fallen short of expectations, and LDCs have yet to obtain tangible results. In order to move the process forward, all partners and stakeholders must acknowledge that the Integrated Framework mechanism requires commitment of resources and an equitable sharing thereof among the six agencies, commensurate with their respective roles. The mobilization of resources for the Integrated Framework would be facilitated by either creating a joint fund for the core agencies or opening a special window under UNCTAD's LDC Trust Fund.

23. At the High-Level Meeting and subsequently, notifications of market access and trade opportunities offered to LDCs were made by a number of developed and developing countries. In his report to the Second WTO Ministerial Meeting, the Director-General of WTO proposed that it would be appropriate to consider, in the preparations for the Third WTO Ministerial Conference, including the objective of eliminating all tariff barriers in favour of LDCs as a matter for implementation on a priority basis in the forthcoming negotiations.

24. The Trust Fund for LDCs was established in early 1997 to facilitate the start-up of new activities and enhance UNCTAD's technical cooperation activities in support of these countries. The target for the Trust Fund was $5 million per annum. Contributions from 13 donor countries – developed and developing – have amounted to approximately $4 million. The Trust Fund has therefore failed to meet one of its main objectives, which is to seek contributions from as many countries as possible, and in particular to be seen as a collective endeavour involving all States members of UNCTAD and relevant NGOs. Similarly, it has failed to obtain financing from non-governmental actors such as foundations and private companies.

25. Implementation of activities in favour of LDCs commensurate with their needs requires regular replenishment of the Trust Fund, as well as the provision of contributions in kind. Increased contributions are particularly required in the light of UNCTAD's role in the implementation of the outcome of the High-Level Meeting and its Integrated Framework. UNCTAD is called upon to prepare an integrated programme of action for technical assistance for LDCs, undertake a realistic assessment of resource requirements for its implementation and convene a donor conference to support its LDC Trust Fund.

26. The Third United Nations Conference on the Least Developed Countries, to be held in Brussels in the year 2001, will be a major event and an important occasion to renew the collective commitment of the international community to reverse the continued decline in socio-economic conditions in the LDCs. UNCTAD should expedite the process of substantive preparations for the Conference, including country-level assessment of the implementation of the Paris Programme of Action for LDCs for the 1990s. Donor countries, UNDP and the international financial institutions, particularly the World Bank and IMF, are urged to provide adequate financial resources for the preparation of the Conference.

(iv) Debt relief

27. In the area of debt, two major developments have taken place in the second half of the decade: the launching of the initiative to deal with the debt of the heavily indebted poor countries (HIPCs) in a comprehensive way; and the mobilization of large-scale rescue packages for middle-income debtor countries in payments crises.

The HIPC initiative

28. For the HIPCs, repeated reschedulings of bilateral debt in the past have added to the amount of unpayable debt, while many years of unsuccessful structural adjustment lending have resulted in an accumulation of a large amount of multilateral debt. In 1996, the international donor community agreed to launch a debt initiative designed to implement a strategy of burden-sharing among all creditors to reduce the debt of the HIPCs to a sustainable level, thus providing an exit from the rescheduling process. However, the implementation of this initiative has fallen short of expectations, and to date only three countries (Uganda, Bolivia and Guyana) have reached the final exit point of the scheme. The major shortcomings of the initiative are derived from the complexity of the process itself, as well as the lack of adequate funding for an expeditious resolution of all eligible cases without damage to the financial standing of the public institutions to which the debt is owed.

Financial rescue packages

29. The privatization and liberalization of cross-border financial transactions have rendered the restructuring of private sector external debt more complex. No mechanism is available to handle large-scale restructuring of the debt owed by many private borrowers in the banking or corporate sector to a multitude of foreign lenders, including bond holders. The payments difficulties of the countries affected by the financial crises of the 1990s have been tackled by the mobilization by official creditor countries and institutions of rescue packages the size of which has become larger with each crisis. These large-scale rescue packages have raised questions concerning the adequacy of emergency financing of the magnitude required by the countries in distress and equitable burden sharing and moral hazard for private sector lenders.

(v) Major United Nations conferences

30. In recent years a number of important United Nations conferences have produced decisions on *inter alia* sustainable development, social development and the advancement of women which embody specific collective commitments on the part of the international community. To date many

of these commitments have not been implemented, including commitments relating to new and additional resources, capacity-building, transfer of technology, creation of an enabling environment for development, the social, economic and political empowerment of women, poverty eradication and employment generation. As a result, the expected benefits of the agreements reached in terms of sustainable growth and development have not fully materialized. It is thus necessary to develop a coordinated approach to conference follow-up, particularly with respect to capacity-building, technical assistance, transfer of environmentally sound technologies, and financial assistance at the levels necessary to support the sustainable development efforts of developing countries, particularly LDCs and small island developing States (SIDS). It should be emphasized that such support should be targeted to the individual needs of a particular country.

C. Measures and initiatives to ensure successful integration into the world economy on an equitable basis and to avoid the risk of further marginalization

31. The impact of globalization has been uneven. Many developing countries, especially the least developed and other structurally weak economies such as those in Africa, have been unable to benefit from the globalization process. They risk being further marginalized as a result of weaknesses in terms of institutional structures and supply capabilities and of inadequate access to markets, capital and technology. At the start of a new millennium, therefore, a fundamental challenge for the international community is to enhance the coherence and consistency of macroeconomic policies at the intergovernmental level and at the level of international institutions, as well as to implement concrete measures and initiatives designed to secure the integration of developing countries into the globalizing world economy on an equitable basis.

(i) Finance and investment

Mobilization of resources

32. The mobilization of external resources for development in the 1990s has been characterized by an increasing privatization of resource flows to some developing countries, which results in a dichotomy between the small number of middle-income countries having access to international capital markets and the large remaining majority of developing countries having to rely on dwindling sources of official finance. The composition of capital flows has also changed dramatically, with foreign direct investment (FDI) and foreign portfolio investment (FPI) accounting for the largest shares of total net resource flows to developing countries. While FDI is a stable form of investment, FPI is often more volatile. Both types of flows have different characteristics and may have differing impacts on the development of recipient countries. FPI may also have a stronger impact, positive or negative, on the domestic mobilization of resources.

33. In the area of the mobilization of external resources for development, the challenges ahead include the following: mobilizing enhanced and more stable sources of international investment flows towards a larger number of recipient developing countries; strengthening international cooperation aimed at a reversal of the decline in ODA; and finding lasting solutions to the debt problems of developing countries.

34. With regard to the mobilization of resources, donor countries have introduced mechanisms to blend public and private funding to finance projects in developing countries, but most of these initiatives are driven by private investor interests and have therefore shunned most of the low-income countries, in particular LDCs and the structurally weak, vulnerable and small economies. On the side of recipient countries, much progress has been made in implementing economic reforms and liberalizing foreign investment regimes in order to attract more private capital.

ODA

35. For low-income countries, the decline in ODA is a serious concern, as it is their major source of finance. The same applies to the decline in the replenishments of concessional windows of multilateral development banks. The unfulfilled basic needs of poor populations have to compete with other claims on development assistance, such as debt relief and emergency aid for countries at war or affected by natural disasters. A continuation of the decline in ODA would be inconsistent both with donor countries' improved budget situations and with their avowed commitment to reduce poverty in poor countries.

36. On ODA, no recent initiative has been undertaken at the international level to reverse its decline. It should be noted, however, that increasing concern has been voiced about the urgent need to reduce poverty in poor countries. The developed countries members of the Development Assistance Committee (DAC) of OECD have renewed their commitments in respect of a development partnership strategy designed to reduce the proportion of the world's population living in extreme poverty by 50 per cent by the year 2015. As a major means to fulfil these commitments, the DAC countries should move swiftly towards the United Nations target of 0.7 per cent of GNP for ODA to developing countries and the 0.2 per cent share of GNP for the least developed countries. In addition, the international community should consider bolder initiatives in this field, such as the creation of a World Development Fund under United Nations auspices, whose objectives would also include contributing to human development. Lessons should also be drawn from successful examples of the channelling of official aid with a view to encouraging the mobilization of more official resources for development.

Debt

37. Debt problems in developing countries are a serious obstacle to the pursuit of economic and social development. High debt-servicing burdens deprive debtor developing countries of the resources needed to build a competitive basis for economic development and to develop a strong social and physical infrastructure. The debt overhang problem of low-income countries further reduces their capacity to attract private investment. The HIPC initiative did not bring sufficient relief in an expeditious way to all poor countries in need of debt relief. As a result, the debt problems of poor countries have become deeper in the aftermath of the global financial crisis. In parallel, middle-income countries which have access to international capital markets have been repeatedly hit by financial crises originating in excessive indebtedness of the private sector. There is as yet no international framework to allow quick restructuring of debt owed by a multitude of private borrowers to a multitude of lenders, including bond holders. Most of the time, solutions have involved international rescue packages financed by official lenders and the assumption of private sector debt by the public sector in debtor countries.

38. Now that the international community has recognized the seriousness of the debt situation, bold new measures are called for. Furthermore, debt relief should not be given at the expense of ODA. Debt relief should form part of a comprehensive framework which would ensure that debtor countries do not fall back into arrears by eliminating the structural causes of indebtedness.

39. The HIPC initiative can be further enhanced if the following proposals are taken into account: the list of HIPCs needs to be enlarged in order to ensure that all poor countries facing debt-servicing difficulties can benefit from debt relief under the initiative; the time-frame for implementation should be shortened to three years, so that debt relief will be delivered at the end of the first ESAF programme; the eligibility criteria, including the fiscal criteria, should be set at more realistic levels in order to reflect the real debt-servicing capacity of debtor countries and to provide a real exit from debt reschedulings; all ODA debts of HIPCs and other LDCs should be cancelled, while other bilateral debts of HIPCs should be reduced by at least 90 per cent. Consideration should be given to cancellation of bilateral official debts for countries emerging from civil strife, countries affected by natural disasters and countries with very low social and human development indicators; and the cost of relief should be met from partial sales of IMF gold, taking into account the need to prevent any negative impact on countries heavily dependent on gold production, a fresh allocation of SDRs and bilateral contributions to multilateral trust funds for debt relief. It is to be hoped that the recent decisions of the G-8 in this area will be fully implemented.

40. With regard to African debt, in its 1998 *Trade and Development Report* UNCTAD proposed the establishment of an independent body to review the sustainability of African debt, with creditors agreeing to write off debt deemed unpayable. This proposal should be given serious consideration.

41. In the case of middle-income countries faced with acute liquidity crisis, huge financial rescue packages have been mobilized to allow debtor countries to face their short-term debt obligations, but no clear debt restructuring framework has been established to help these countries to negotiate quick debt restructuring with their private creditors. This complex problem needs further research with the objective of providing a clear statement of the costs and benefits of alternative options for a solution.

Investment

42. International investment flows have increased rapidly and at a faster pace than world output and world trade since the early 1980s. As a result, international investment has emerged as one of the driving forces in the world economy, contributing not only to the integration of markets, but also, increasingly, to the integration of national production systems. The emerging integrated international production system and the increasing globalization of business can yield benefits for the economic growth and development of developing countries. However, they also bring with them the danger of further marginalization, in particular of the least developed countries. This is all the more important as FDI represents a package that includes not only capital but also technology, organizational and management practices, skills and access to international markets. To the extent that countries are increasingly marginalized from FDI flows, they also are deprived of the other tangible and intangible resources which are central to development.

43. To attract such resources, developing countries strive to create a favourable and enabling investment climate to attract international investment flows. In addition, national efforts at liberalization are increasingly complemented by facilitation and protection efforts at the international level. However, while FDI flows to developing countries have increased, they remain highly concentrated in a few countries. For example, the LDCs' share in total FDI flows stood at less than one-half of one per cent in 1997. To remedy this situation, policies need to be developed with a view to helping developing countries to attract and benefit from FDI, as well as to build and maintain an enabling enterprise environment in which domestic and foreign firms can prosper. This includes technical assistance in devising FDI strategies and in putting in place appropriate proactive policy frameworks and institutions which would impose the least possible burden on fiscal resources. It also includes home country measures that encourage FDI flows to developing countries. A favourable and enabling investment climate which mobilizes FDI and domestic savings and channels them into productive investments also requires that the suppliers of capital have reliable, transparent and comparable financial information.

44. Understanding of a range of issues needs to be improved, including concerning the role of FDI, technological capacity building and enterprise growth, as well as enterprise internationalization, in the development process in the context of a globalizing world economy. Understanding also needs to be improved on the role of international arrangements for the purpose of attracting and benefiting from international investment flows, enhancing technological capacity and promoting enterprise development in a globalizing world economy.

(ii) International trade

Trade liberalization

45. The liberalization of national trade regimes has increased pressures toward specialization in products with the highest comparative advantage and has consequently interrupted learning by doing in processing, manufacturing and services industries. The result has been that countries which are internationally most competitive in products characterized by low demand growth and low income elasticities in their main traditional markets, and which have a high dependence on them, have fallen further behind.

46. Further, although developing countries need policy flexibility to support and promote their enterprises, investments in production and marketing, and export expansion and diversification, latecomers now face more stringent policy conditions than those which prevailed previously. On the one hand, the multilateral framework of WTO rules has in certain cases narrowed the range of policy options for Governments: quantitative tools of protection are now largely ruled out, including production allocations and similar means; tariffs are increasingly subject to binding commitments; the transition period for national content and trade balancing requirements lapses at the end of 1999; and export subsidies will no longer be permitted for most developing countries after 2003. On the other hand, commitments undertaken under IMF/World Bank Structural Adjustment Programmes have reinforced and widened WTO commitments and accelerated the adoption of non-reciprocal autonomous liberalization measures, and bilateral agreements with major developed countries have further reduced the remaining policy options and WTO flexibility.

47. In the course of the implementation of the WTO Agreements, some imbalances and asymmetries have become apparent. These need to be addressed urgently so as to ensure that the multilateral trading system results in mutual benefits for all countries.

48. At the same time, deficiencies in the policy framework for stimulating production, trade and investment remain in many developing countries. As a consequence, hopes for a strong contribution to growth from FDI have not been realized, apart from in a few sectors such as petroleum, mining products and tourism. Most low-growth developing countries have not attracted any major FDI over the past 15 years. Small markets and low growth are by themselves major deterrents for FDI, regardless of operating conditions, policy frameworks and incentives, unless there are compelling reasons, as in the case of petroleum.

Policy consistency

49. Trade policies and trade liberalization should be made more consistent with the declared objectives of development policy. In developing countries, ways and means need to be sought to ensure that trade makes a more decisive contribution to alleviating poverty. Such aspects as increased effectiveness of trade for stimulating economic growth, the distribution of growth effects, and sectoral policies for agricultural and tourism development, and in the longer term for diversification into industry and advanced services, require further attention. The negative connotation often attached to trade liberalization, in view of its risks for employment and incomes during transition, calls for increased international assistance and improved remedies and the continuous monitoring of the developmental impact of multilateral trade agreements.

50. There is a similar need for improved policy coherence in developed countries: between sectoral agricultural, tax and fiscal policies on the one hand and the objectives of their own development policies on the other; and between their own policy conduct and the policy advice extended to developing countries in the context of technical assistance. A significant reduction in import protection would raise developing country exports. A substantial reduction in government subsidies would equally save their budgets a multiple of the scarce and diminishing volume of ODA. Export subsidies are inconsistent with requests for further import liberalization by developing countries, as they damage the competitive positions of developing country domestic producers on home and foreign markets. While developed countries emphasize the role of private investment as a development tool, they compete to attract such investment with high subsidies and through tax policies can offset the incentives granted by developing countries to their FDI projects. Large-scale public subsidies are granted to major technological development projects of TNCs, whereas the access to their results is protected for decades by exclusive rights, and this increases the technology gap of developing countries. In addition, unilateral measures, including measures with extraterritorial effects, are being resorted to, with a consequent negative effect on efforts to move towards a truly non-discriminatory and open trading system.

51. Policy coherence is required in another area. So far, negotiations at WTO have proceeded, and agreements have been concluded, with scant, if any, regard to the conditions necessary for the effective implementation of these agreements, particularly in the developing countries. Extended transition periods and technical assistance from the WTO secretariat in the form of explanations of required legal changes are inadequate. Each new agreement reached should contain explicit provisions for the provision of financial assistance to the developing countries to enable them to

establish the necessary infrastructure and other conditions necessary for the effective implementation of the agreement. The World Bank and the regional development banks could provide the necessary funding.

Equitable playing field

52. It has become clear that to establish a truly equitable playing field, it is not sufficient to establish equal rules for all. Whilst trade barriers in the main markets are now generally low for most trade of developed countries, there is a lack of equal opportunities for developing countries' exports in the present system. Problems under this head include the following:

- Very high import barriers, including non-tariff measures, in major markets are concentrated on export products of particular export interest to developing countries.

- Extremely high subsidies are granted under a variety of schemes by developed countries' for agricultural production, investment and exports, which have a deleterious effect on developing countries' export and production capacities.

- Agriculture combines the most severe handicaps for developing country exporters: extremely high peak tariffs for major food products; complex tariff structures; protective measures under the agricultural safeguard clause; biased implementation of tariff quotas; extremely high levels of export, production and investment subsidies in developed countries; and import prohibitions for health and sanitary reasons which are applied differentially against developing countries' exports.

- Agricultural liberalization can have social and economic effects for LDCs and net food-importing developing countries, which face acutely the problem of food security, including food aid, and difficulties in meeting their food import requirements.

- High protection for the domestic food industry in developed countries hampers diversification as one of the more viable ways of moving up the production chain and increasing the value added of production in small and medium-size developing countries. Even after full implementation of the Uruguay Round commitments, high tariff protection and tariff escalation remain in the textiles, clothing, footwear and certain high tech industries in certain developed countries, and liberalization of the most stringent and export-relevant Multi-fibre Arrangement (MFA) quotas will not take place until 2005.

- Anti-dumping measures and countervailing duties are gaining ground in sectors where exporters from developing or transition countries are competitive. Where these measures are directed against products which are already under restraint, they lead to a double protection amounting to trade harassment.

- Industrial subsidies are high and are tolerated by WTO in areas where developing countries cannot compete financially (export financing, research and technology, environmental protection, regional subsidies, etc.), whereas WTO rules are stringent with respect to subsidies primarily used by developing countries (e.g. production and input subsidies).

- There is an asymmetry between liberalization of trade in goods and financial services on the one hand and labour services on the other, which particularly affects developing countries.

- The implementation of the WTO Agreements, including special and differential provisions in favour of developing countries, was inadequate both for the expansion of their trading opportunities and for addressing their development and financial needs.

53. Major targets for WTO negotiations could include the following: tariffs, particularly the extremely high peak tariffs resulting from tariffication in agriculture, as well as those in the food industry and certain manufacturing products, and tariff escalation should be significantly reduced; the evasive integration of clothing and textiles into WTO and certain preferential arrangements should give place to an accelerated programme of liberalization of existing quotas; a more significant reform should be undertaken of internal support policies; the criteria for resorting to contingent trade measures to protect producers against foreign competition should be made more stringent and costly, and the scope for abusing anti-dumping, countervailing and safeguard measures should be minimized. Initiation of anti-dumping and countervailing procedures needs to be subject to stricter criteria, injury tests tightened, and minimum thresholds raised to respond to the higher volatility of exchange rates and prices occurring in the normal course of commercial business; and finally, agriculture needs to be integrated into normal GATT 1994 rules. To that effect, a programme should be established for the progressive incorporation of agricultural subsidies within the rules and criteria of the WTO Agreement on Subsidies and Countervailing Measures. The "green box" in the Agreement in Agriculture should be revised to take into account the socio-economic importance of the agricultural sector in developing countries. And more focused financial and technical assistance should be provided to address effectively the problem of food security in net food-importing developing countries. In particular, mechanisms should be set up to ensure the implementation of the Marrakech Ministerial Decision on Measures Concerning Possible Negative Effects of the Reform Programme on Least Developed and Net Food-Importing Developing Countries. Developed countries and international financial institutions should contribute to a revolving fund to help LDCs (and other net food-importing developing countries) to cope with rising food requirements and associated high food import bills and to assist them in increasing local food production and capacity, *inter alia* in marketing, storage and distribution. Food security should be an element in the future WTO negotiations on agriculture.

54. Another issue requiring action relates to the fact that many developing countries face problems when trying to diversify into higher value-added and manufactured exports with more dynamic demand prospects. The barriers to entry in precisely those sectors where they should have the best chance of breaking into industrial exporting need to be addressed: in addition to textiles and clothing, this is particularly the case for the food industry. Import prohibitions and restrictions for sanitary and phytosanitary reasons should be adopted only when fully justified in specific countries or subregions and by international standards elaborated with the full participation of developing countries. These arguments apply in a similar manner to technical, environmental, safety and other standards for trade.

55. Market access conditions for agricultural and industrial products of export interest to LDCs should be improved on as broad and liberal a basis as possible. All countries that announced market access commitments at the High-level Meeting on Integrated Initiatives for Least

Developed Countries' Trade Development in October 1997 are invited to implement these commitments fully and expeditiously.

56. Finally, the issue of subsidization of all types in favour of agricultural and industrial production and investment needs re-examination. In developed countries, transfers from budgets and consumers to producers continue on a large scale: they have been estimated at more than 10 times the level of ODA. Developed countries could save 2.2 per cent of their GDP every year on subsidies. Developing countries cannot afford to compete at that level. Nor would it necessarily be in the interest of developing countries to enter into competitive subsidization, as scarce resources could be used more effectively to improve production structures, strengthen supply and export capacities, and reinforce international competitiveness in a lasting manner. In view of the transition needed, a certain degree of special and differential treatment will, however, be necessary to allow developing countries to improve their productivity and cushion structural adjustment and trade liberalization programmes.

57. A revision should be undertaken of multilateral agreements on subsidies. Concrete objectives to be subsequently implemented include bringing agricultural subsidies, export financing and support under control; effectively ruling out subsidies for exports, loss compensation, etc.; and stopping the subsidy race to attract new investments. The review of the WTO subsidies agreement and the agricultural negotiations provide an opportunity for a substantial reduction of subsidies in developed countries. Specific objectives could include opening the present "green box", which essentially gives room for subsidies practised by developed countries, and introducing a new "green box" with some flexibility and risk and cost compensation for developing countries at substantially reduced subsidy levels. It is important for LDCs to be exempted from the Aggregate Measures of Support and Subsidy Disciplines of the WTO Agreement. The Marrakech decision on measures concerning the possible negative effects of the reform programme on LDCs and net food-importing developing countries should be implemented fully and without further delay.

58. As many developing countries, including a considerable number of LDCs, are not members of WTO, the accession process for these countries on terms that do not exceed the commitments of developing and least developed countries members of WTO should be facilitated.

Special and differential treatment

59. The basic principles of special and differential treatment for developing countries are fully established and recognized in the various decisions of the United Nations General Assembly, UNCTAD and WTO. Modernization of special and differential treatment is, however, needed, not so much in principle but rather in the modalities of its implementation in order to adapt it to changing international trading conditions. In particular in the WTO context, future special and differential treatment should be based on specific development criteria instead of arbitrarily defined transitional periods.

60. Widening gaps between developing country export performance and international competitiveness call for stronger emphasis on direct policy action in respect of structural production and investment conditions and reinforced international support. Price and preferential incentives alone have not brought about a broad turnaround where the production basis was not sufficiently developed for progress to be made towards exporting to major developed country

markets. Nor have they been sufficient in such cases to attract large-scale foreign investment. In particular, special and differential treatment could be given a supply side emphasis, with a "carve out" from multilateral trade disciplines of those measures, particularly investment measures, essential to the development of a competitive supply capacity.

61. The special and differential measures in favour of LDCs as contained in the Final Act of the Uruguay Round, especially the Marrakech Declaration and Ministerial Decisions, should be implemented in full and as a matter of priority. New measures for LDCs should also be introduced, including the provision of duty-free and quota-free access for all products of export interest to these countries.

62. New trading opportunities created by liberalization of market access to developed countries within regional or multilateral agreements need to be complemented by operational programmes, technical assistance and financing to help countries in the implementation of their national measures to strengthen productive structures, investment and productivity.

63. Such measures would make preferential market access more effective. They should have their place in the WTO multilateral trade agreements, as well as in the various free trade areas and cooperation agreements building up around major developed countries. In parallel, there are various ways in which the GSP could be modernized and made more effective, in particular with respect to LDCs and measures regarding investments.

64. Concrete action should be taken so that a greater number of developing countries can benefit effectively from the GSP and other preferential arrangements. Measures are, in particular, necessary to rectify the present imbalances in the distribution of GSP benefits, including the following: (i) product coverage should be continually expanded and should correspond to the actual and potential export supply capabilities of developing countries; (ii) rules of origin should be adapted to the production capabilities of developing countries, and they should be further simplified and have their transparency improved, with possible harmonization of different rules; (iii) greater stability, predictability and transparency of tariff concessions should be ensured; (iv) existing quotas in GSP schemes should be increased; and (v) any conditionalities associated with GSP schemes should be removed. Analytical work and monitoring in this area should be strengthened.

65. In view of the likely further liberalization of trade in agricultural and industrial products within the framework of multilateral negotiations and regional arrangements, preference-giving countries should abstain from further reversals in their respective GSP schemes, as any tightening of market access conditions would at any rate only be temporary and would be overtaken by MFN tariff reductions. Wherever possible, preferential rates should, therefore, be further reduced *pari passu* with MFN rate reductions.

Commodities

66. Many developing countries, and in particular most of those with weak growth performance, remain highly dependent on commodities for their trade, production and employment. Commodities continue to provide an important economic starting base: they have a high value-added component; agricultural commodities are an important source of employment and offer

scope for anti-poverty campaigns; and agriculture frequently acts as a buffer against economic problems and allows the return to rural areas of urban unemployed, as in the current crisis. Commodity-based diversification therefore offers a major opportunity for change in line with existing comparative advantages.

67. However, actual developments in the commodity sector have lived up to such expectations in only a few countries:

- Dependence on commodities has remained high in many developing countries.
- Rather than diversification of commodity patterns of trade, in several countries concentration has increased over the past decade; only a few countries have made tangible progress in diversification, primarily based on agro-business.
- Commodity price instability has remained extremely high, with declining trends for a number of commodities.
- Risk management is not a means of smoothing commodity price fluctuations; it helps primarily those traders who can manage the highly complex issues involved, are close to markets and can afford its high cost.
- Commodity earnings instability continues to be problematic. The IMF's commodity stabilization facility has remained unused for the past decade owing to strict conditionality. STABEX and SYSMIN have repeatedly run into severe resource crises and have not led to structural improvements in production and trade.
- High levels of investment and substantial rationalization of the commodity sector in many developing countries have resulted mainly in productivity increases benefiting world markets, but only to a small extent in benefits for producers.
- Problems regarding sanitary and phytosanitary standards remain significant; import prohibitions in major developed country markets have not been relaxed, but have rather tended to tighten.
- The dynamism of niche products in the agricultural sector has often faded away after initial success (for example because of import periods that are too short to make production economically viable, anti-dumping and countervailing duties, etc).

68. The key market access problems faced by commodity exporters should be urgently addressed, with the elimination of tariff peaks and tariff escalation, placing agricultural commodities on the same footing as other products in the international trading system, and ending trade distorting agricultural support measures.

69. The existing mechanisms for helping to stabilize commodity export earnings should be improved so as to respond to the real concerns of developing country producers; this involves eliminating conditionality, expanding the resources available to the facilities, adapting the formulae used so that payments respond more quickly to actual market conditions, and making use of new

financial instruments for price risk management for dealing with that part of export earnings instability linked to price volatility rather than to variations in volumes.

70. The competitiveness of developing countries in international commodity markets needs to be enhanced. Cooperative arrangements among enterprises in developing countries for improving supply reliability and quality should be considered, as should a new generation of business-oriented marketing boards to fill the void created by the abolition of traditional marketing boards.

71. Market transparency and information should be improved, as should capacities of developing country enterprises to access and use information, particularly in electronic form, and training to this end should be supported.

Competition

72. Liberalization of trade and investment inside and outside WTO has accelerated globalization and, together with technological progress, enabled TNCs to pursue worldwide strategies: major TNCs now have the entire world market at their disposal and seek to achieve leading world market positions in their core business through mergers, acquisitions, investment or trade. While dominant market positions are not necessarily anti-competitive in themselves, certain practices applied by companies enjoying such positions can limit international competition and market entry by competitors. Anti-competitive practices and abuse of dominant market positions limit market access and market entry to major developed country markets; they include exclusive dealing, market sharing, export restraints imposed on licensees and joint venture partners, and denial of access to international networks and technology markets. Other RBPs, such as creation of export and other international cartels and obligations to abstain from parallel imports, raise import costs for developing countries. In this situation, national Governments find it increasingly difficult to enforce national competition rules to safeguard market forces and free market entry.

73. RBPs should not impede or negate the realization of benefits arising from the liberalization of tariff and non-tariff barriers affecting world trade, particularly those affecting the trade and development of developing countries. Disciplining RBPs is also necessary to attain greater efficiency in international trade and development by, *inter alia*, promoting competition, controlling concentration of economic power and encouraging innovation. There is a need to prevent enterprises from re-establishing market barriers where governmental controls have been removed. Developing countries, which do not have many worldwide TNCs, have a major interest in seeing that their access and entry to their major export markets is kept open and unrestricted by anti-competitive practices. TNCs also have an interest in increased government cooperation when involved in strategic alliances that encompass production in several countries in order to avoid multiple scrutiny and approval. The capacity of business enterprises in developing countries, including developing country TNCs, to engage in fair competition must be strengthened.

Services

74. Labour services have been a major source of export income and have contributed to the upgrading of qualifications for several developing countries. However, the asymmetry of globalization processes between product and factor markets and between capital and labour has been to the detriment of the latter, thus limiting the scope for expansion of developing country

services exports. Moreover, because of weak infrastructures and *inter alia* their limited access to technology and distribution network channels, most developing countries have not yet developed the capacity to compete effectively in the world market for services. Electronic commerce could provide a means of exporting labour-intensive services but only if adequate access to technology is obtained.

75. Developing countries' institutional, financial and human capacities in the services sector should be further enhanced to enable them to engage effectively in the multilateral trading system, either in terms of defending their trade rights or in complying with their trade obligations.

76. To enable them to derive maximum advantage from existing and potential markets, developing countries need assistance to enhance their services infrastructure development and to secure reliable information on the extent of services trade and on market access and barriers to services trade. The effective supply of services requires the use of all modes of supply; WTO members should, in particular, expand access for the supply of services via the movement of natural persons. Disciplines need to be formulated in such a way that provisions on requirements, qualification procedures, licenses and technical standards do not constitute barriers to trade.

77. Electronic commerce shrinks economic distances between producers and consumers and transforms industry structures to the potential advantage of developing country suppliers. But for them to take advantage of this potential, they need access to the most modern telecommunications infrastructures and networks at low cost.

ECDC and economic integration

78. Economic cooperation among developing countries (ECDC) and regional and subregional economic integration retain their full relevance. A new potential is growing in certain developing countries as they become major foreign investors and major manufacturers and exporters in industries which now use textile fibres and raw materials previously imported from developed country industries. There is therefore increased scope for cooperation among developing countries to expand mutual trade and investment and tighten industrial and technological cooperation. The South Summit in the year 2000, to be held in Havana, should mark a major turning point in the field of ECDC and in the enhancement of North-South relations.

79. The second round of GSTP negotiations has now been concluded. Notwithstanding the forthcoming round of multilateral trade negotiations, it would be worthwhile considering the further deepening and expansion of the GSTP in order to enhance its effects. In that context, it would, however, be useful to examine possible ways of rationalizing the process of negotiations for a third round.

80. Subregional and regional integration offers new scope and improved chances of success. This approach can now be embedded into substantially improved policy conditions and a strengthened policy framework resulting from structural adjustment, trade and investment liberalization: exchange rates are now aligned with markets, quantitative import restrictions widely removed, investment policies largely liberalized, and domestic policies considerably strengthened. Economic integration can build on this progress and deepen the process further. It offers a multisectoral framework of cooperation which combines the tools of trade expansion with

cooperation in respect of investment, services, transport, customs facilitation and other areas which mutually enhance each other's effectiveness. Producers can benefit from economies of scale. Subregional integration is a means to diversify into new export products, to encourage many new firms to export for the first time, to gain experience on the regional market, and to become competitive in certain branches where the regional market exceeds the threshold of cost effectiveness. Subregional integration can therefore constitute a major stage in the learning process for attaining international competitiveness and, in certain industries, a phase in the process leading towards later expansion towards world markets. It can also strengthen the position of members in trade negotiations and subregional agreements.

(iii) Other development-related issues

Enterprise development

81. Many SMEs do not realize their full potential contribution to employment, growth, diversification, widening of the export base, a vibrant industrial sector and development because they lack access to markets, finance, business skills and technology. These traditional "access" problems have been compounded by globalization and liberalization. Production is now knowledge-based and competition now occurs on the basis of both continuous innovation and price. Knowledge-based production cuts across all sectors and even includes the traditional sectors. Entrepreneurs must master design, have extensive knowledge of markets and technology, and become innovative.

82. There is an urgent need to analyse the impact of the WTO commitments on national policies for SME development, particularly those facilitating market access. In addition, new international standards in such areas as product quality and safety could limit developing countries' market access. In particular, product quality, environmental and health-related standards in developed country markets, and international standards (ISO 9000/14000) have the potential to create barriers to trade, particularly for SME exporters. Some LDCs have already experienced export losses. Participation of developing countries in standard-setting tends to be weak because the processes are time-consuming and expensive. The ability of developing countries to participate needs to be enhanced.

83. Despite their vast numbers, SMEs have traditionally had difficulty in accessing formal credit, particularly long-term finance. The key reasons for this are well known: SMEs are considered high-risk undertakings due to their insufficient assets and low capitalization, vulnerability to market conditions and high mortality rates; in many countries, banks are biased in favour of large corporate borrowers; information asymmetry arising from SMEs' lack of accounting records and other financial documentation makes it difficult for banks to assess the creditworthiness of potential SME borrowers; and the high administrative costs of lending small amounts generally do not make SME lending a profitable business for banks.

84. The key issues which need to be addressed if long-term capital is to be made available are the provision of acceptable collateral or its alternative in terms of guarantee schemes and the lowering of administrative/transaction costs.

85. Another problem affecting TNCs and SMEs alike is lack of financial transparency and disclosure. Suppliers of capital need reliable, transparent and comparable financial information. Developing countries need to play a more active role in setting the rules for corporate governance and for financial disclosure. Increased transparency can only increase investor confidence and the supply of investment and credit to large and small enterprises alike.

86. The growth and survival of SMEs in a globalizing world economy requires the adoption at the national and international level of policies and programmes which allow them to compete both at home and abroad. At the national level, new supporting structures are needed, including programmes for entrepreneurship and innovative capacity-building, ability to meet new standards being set in international negotiations and information on market opportunities. New strategies are also needed which integrate investment, TNCs and SMEs. The international community can take a number of measures to increase SMEs' access to markets, finance, business skills and technology. Future WTO negotiations should be undertaken keeping in mind their possible impact on SME development. New international standards for product quality and the environment should be formulated with the participation of developing countries. International financial institutions need to review their policies and programmes to provide finance to SMEs. Lastly, they should improve transparency and disclosure worldwide by promoting international accounting and auditing standards, as well as assistance for developing countries in their implementation.

Transfer of technology

87. The technological gap between developed and developing countries is wide and increasing, to a significant extent as a result of the failure of existing market and non-market mechanisms that are supposed to lead to transfer of technology. Technology flows tend to be associated with investment in technologically sophisticated industries, and both investment and technology are attracted to a few regions or countries. Technology flows not deriving from investment flows, such as purchase of machinery and equipment, have been constrained by import restraints in many countries due to debt and unstable commodity revenues.

88. With the appearance of new technologies, productive activities can be segmented and spread around the world in different locations, and thus more countries have potential opportunities to participate in international production and trade. But these opportunities are not easily tapped by all countries. Only countries with a broad range of technological capabilities are able to host specialized activities in the various segments of goods and services production. Created technological assets, more than traditional factor endowments, determine comparative advantage in today's knowledge-based world economy.

89. In principle, the technological gap between developed and developing countries is bridgeable, as technology can be transferred from producers to users through the market and other mechanisms. At one stage, technological backwardness was even considered an asset, as developing countries could grow rapidly with catch-up strategies and leapfrog the slower-growth front runners. However, this has not happened on a large scale.

90. New technologies such as information technology and electronic commerce will revolutionize the way business is conducted and could also limit the survival and growth of SMEs. On the other hand, other technologies such as environmentally sound technologies, biotechnology

and new materials development present opportunities for developing countries provided they have skills, absorptive capacity and finance to adopt and adapt.

91. Technological development is therefore important for the integration and participation of developing countries in the international trading system. Such development can be facilitated by domestic and international actions, including human resource development, strengthening of policy and legal frameworks and the competitive environment, establishment of science and technology institutes and infrastructure, encouragement of business support services, and home country measures that encourage the transfer of technology, including environmentally sound technologies, on concessional and preferential terms to developing countries, in particular the least developed countries.

92. Technological knowledge includes not only knowledge on which a product, process or service is based but also the organizational knowledge necessary for production and distribution of goods and services. Transfer of technology is not only embodied in machinery, equipment, intellectual property rights and managerial skills, but also occurs through other means such as training and the provision of information. The transfer process should focus on a transfer of capability, which is of greater developmental value than the mere transfer of a piece of hardware.

93. There is need for an exchange of best practices and the provision of technical and financial assistance to countries seeking to improve their technological capabilities. There is also need for the provision of advisory services to countries, and even firms, to help them articulate demands for specific technology, to acquire it knowledgeably and to use it effectively. One of the obstacles to effective transfer of technology is still the weak bargaining position and financial capability of recipients.

94. The establishment of transfer of technology facilities will help developing countries in assessing their technology needs, identifying technology suppliers and concluding mutually beneficial technology deals and partnerships in areas such as information technology, biotechnology and environmentally sound technologies.

95. The importance of transfer of technology, especially in developing countries, has been recognized in various forums. WTO agreements refer to access to technology and building technological capabilities. For example, the TRIPS agreement calls upon developed countries to provide incentives to their enterprises and institutions for the purpose of promoting and encouraging technology transfer to developing countries, including least developed countries. There is a need to operationalize these provisions in respect of technology transfer and capability building in developing countries and to examine their impact.

96. Similarly, measures are needed to prevent abuses by technology right holders or the resort to practices which impede the transfer and dissemination of technology. Control of such practices is quite common in developed countries, but there is a lack of legislative measures in this regard in many developing countries.

Trade supporting services

97. Apart from acquiring the necessary technological know-how, the ability of developing countries to benefit from their participation in the ever more complex global economic system will also depend on the capacity of their enterprises to compete in both domestic and international markets. For this, the existence of adequate trade-supporting services such as trade facilitation, transport, customs, banking and insurance, human resources development and business information is a necessary if not a sufficient condition.

98. Strategies to establish more efficient trade-supporting services require a reversal of the current trend of declining ODA and a greater involvement of private sector players. They should also take full advantage of the falling cost of gathering, processing and transmitting information and the wider availability of information technologies. In these strategies, which constitute the core of the concept of trade efficiency, the promotion of electronic commerce in developing countries must have a central place.

99. Through a radical shift among the relative prices of transferring factors of production across borders (information-intensive ones in particular), electronic commerce has started to affect in a profound and irreversible manner the nature and rationale of a significant portion of international trade flows.

100. The ability of developing countries to benefit from these changes could be significantly hampered by two sets of handicaps: firstly, insufficient awareness of the qualitative importance of these changes and of their anticipated impact on the activities, competitiveness and possibly survival of their own enterprises, at home and on international markets; and secondly, lack of adequate information infrastructure, international connectivity, relevant human resources and appropriate legal and regulatory environments. The ongoing international debates on a 'global framework for electronic commerce' still lack a development dimension. Unless such a dimension is brought swiftly to the relevant debates, electronic commerce could still result in a broadening rather than a narrowing of the gap between the 'haves' and the 'have nots' of the emerging global information society.

101. While the above challenges concern the players in the formal sector of the economy, the generation of more efficient services to support the promotion of entrepreneurship has an enormous potential as an instrument to fight poverty and social exclusion among the millions of people engaged in the micro enterprise and informal sectors.

102. The non-availability of, or lack of access to, a functioning transport sector determines the degree of participation of countries in the global trading system and is a prerequisite for FDI. Inefficient procedures, excessive transport costs or non-availability of connections create a major barrier blocking access to foreign markets. Any attempt to increase the competitiveness of export goods in foreign markets will thus have to address both the cost and quality of land and ocean transport services available to traders in developing countries, and especially land-locked and small island developing countries.

103. Customs have a critical influence on development through the four major tasks they perform: (1) they are the physical "contact point" between the global and the national economy;

(2) they collect duties which represent a sizeable part of government revenue in developing countries; (3) they are essential in the fight against the traffic in illegal products; and (4) they gather trade statistics which are vital for policy-making. With the rapid spread of electronic commerce, the absence of a modern and efficient customs administration can rapidly become a major obstacle to the participation of a country in international trade.

104. To be integrated in the world economy, developing countries also need to increasingly become a part of global payments systems and pay special attention to the development of national trade-related financial service capacities. Lack of credit information systems and of knowledge related to modem trade finance products and institutions, as well as an inadequate credit culture, prevent these countries from adapting to the internationally accepted requirements of financial systems.

105. It is estimated that, in the two years following UNCTAD X, electronic commerce will exceed 10 per cent of total world trade. Many analyses and projections stress that developing countries and small and medium-sized enterprises could be among the main potential beneficiaries of the opportunities it will generate. However, the benefits of electronic commerce could stay out of reach for many developing countries if obstacles such as the following are not addressed: (1) access: the Internet often remains too expensive for smaller users in developing countries; (2) human resources: the sensitization of Governments and business to the importance of electronic commerce and the dissemination of relevant skills (technical and managerial) remain priorities; (3) content: the ability (specially for SMEs) to benefit from electronic commerce implies an acceleration in the production of local content; (4) legal and regulatory frameworks: issues like certification, authentication, protection of intellectual property, and encryption will need to be considered, with the involvement of developing countries, in the relevant discussions and negotiations; (5) financial and fiscal dimensions: payment guarantee mechanisms and trade financing techniques will be radically affected by the expansion of electronic commerce; the impact of electronic payments on monetary creation should also be considered; the implications of various electronic commerce fiscal scenarios for developing countries are still unclear and need to be further explored; and (6) security and governance: the respective roles of Governments, international organizations and the private sector in defining some of the underpinnings of electronic commerce (Internet top-level domain names, trademarks, content control, for example) need to be further defined.

106. The experience of countries that have been successful in this area often includes an effective mobilization of civil society to attain the objectives of a knowledge-based economy: Governments, enterprises and local communities have participated in different kinds of "national task forces". This is an experience that can be shared with less advanced countries through exchanges and debates among various parts of civil society. International support will also be necessary. Efforts to strengthen capacities to negotiate in WTO, ITU, WIPO and other relevant forums will be of particular importance. This will involve efforts both in the area of information and training and in the domain of physical capacity-building (providing connectivity in rural areas and in LDCs in particular). In this context, priority should be given to direct exchanges of experience among institutions and enterprises involved in electronic commerce.

107. In order to enable developing countries' transport operators to prosper in a liberalized market environment, it is essential to implement policies aimed at capacity-building and removing

obstacles for national operators. These policies are intrinsically linked to liberalization processes. At the same time, it is important that local operators benefit from a regulatory and promotional environment that gives them a reasonable chance of success. This approach is not to be confused with a call for restrictive or discriminatory measures that would impede the freedom of choice of users of transport and logistics services. It does, however, call for some streamlining of administrative and regulatory procedures, such as conditions for ship registration, taxation, etc. The extent to which outdated trade and transport procedures are preventing developing countries and emerging economies from competing on a level playing field with developed countries has already been shown in several forums. The international community should assist Governments of developing countries in streamlining such procedures while simultaneously ensuring that simpler trade and transport procedures help the enterprises of developing countries in improving their participation in world trade.

108. In spite of their favourable track record, many micro finance institutions in developing countries face constraints of access to sources of capital. There is a need for the development of alternative financial mechanisms to increase the access of micro finance institutions to national and international capital markets, such as investment funds for micro banks. Adequate insurance and other financial services specifically geared to serve the demand of micro entrepreneurs and the informal sector should also be fostered in developing countries. Governments and civil society must work to create an enabling environment to allow profit-making and development to reinforce each other.

Human resources development

109. Enterprises in developing countries are affected by an overall shortage of skills, knowledge and aptitudes that impedes their ability to innovate and adapt to changing technology, legal requirements and commercial practices in the conduct of foreign trade. They also face difficulties in the introduction of improved work and management practices needed to enhance competitiveness in global markets. While these influences impinge on all economic processes, they are particularly restrictive in relation to trade-supporting services upon which the expansion and diversification of foreign trade depends.

110. Production processes and services must adapt to changing circumstances: as technology advances, regulations are reinforced and commercial practices change, each presenting new opportunities and constraints. Personal abilities and practices must adapt accordingly, and human resource development must be given close attention. However, reaching beyond this evident need, further increases in efficiency and radical innovation will result increasingly from human endeavour and be a major source of future growth, so human resource development must become a key policy issue.

II. UNCTAD'S ENGAGEMENT

111. An equitable distribution of benefits of globalization requires meeting complex policy challenges which arise, particularly at the global macroeconomic level, from the growing interdependence of the various spheres of economic activity, including particularly trade, finance and investment, and the downside risks which this interdependence sometimes carries. UNCTAD, which has, since its foundation, striven for a more integrated approach to economic development, is pre-eminently placed to examine these issues and to build consensus for reformulation of policies in a globalizing world from a development perspective. UNCTAD has a major role to play in helping developing countries to design a carefully managed and phased integration into the world economy, taking into account the many new issues which confront policy-makers, and tailoring the process to each country's level of economic development and institutions.

A. Globalization, interdependence and development

112. At the intergovernmental level, UNCTAD should continue to provide a forum for the exchange of views and perspectives on the evolution and management of globalization and on the interdependence of trade, finance, technology and investment as it affects the growth and development prospects of developing countries. The objective of this work will be to help develop policies and strategies at the national and international level. With regard to financial and monetary issues, discussion in UNCTAD adds value in terms of injecting a development perspective. A broad assessment of issues and policy directions should include analysis of financial crises and their implications for development and the reform of the international financial architecture. UNCTAD should contribute to the debate on issues related to strengthening and reforming the international financial architecture by continuing to provide relevant analysis from a development perspective. The focus should be on financing for development, consistent with efforts to ensure greater financial stability.

113. In its work on globalization and development, UNCTAD should continue to monitor the implementation of the Programme of Action on LDCs and contribute to the effective implementation of UN-NADAF and the Barbados Programme of Action for the Sustainable Development of Small Island Developing States.

114. The programme of work of the secretariat in the field of globalization, interdependence and development should focus on the analysis of interdependence with an emphasis on the impact of global macroeconomic balances, developments and policies on the development prospects of developing countries, the objective being to develop appropriate policy responses. Questions concerning international money and finance should be addressed as part of the analysis of global trends; full use should be made of the technical work in this field carried out by IMF, the World Bank, the Bank for International Settlements (BIS), regional development banks and other specialized institutions. UNCTAD should be a full participant in all activities relating to achieving coherence of global economic policy-making, particularly providing support for the activities related to the interdependence between trade, investment and finance and the impact of such interdependence on development.

115. Specific work should cover ODA, debt and portfolio investment. In these areas the UNCTAD secretariat can contribute through its analytical work, technical assistance and cooperation with the private sector in order to achieve a better dialogue for mobilizing stable sources of financial flows to developing countries. UNCTAD should:

- Analyse trends, fulfilment of commitments and policy options in the area of external resource mobilization, focusing in particular on ODA, with regular discussions in the Trade and Development Board;

- Analyse the debt problems of all developing countries with a view to identifying effective, equitable, development-oriented and durable solutions, to be discussed in the Trade and Development Board, the General Assembly or other international forums;

- Pay special attention to exploring more innovative approaches to alleviating the debt burden facing LDCs. Building upon the favourable climate already created by recent debt initiatives, an extensive and comprehensive "debt-relief for productive capacities" initiative should be launched whereby funds released from debt forgiveness in this way could be used to finance investments in productive capacities and infrastructure;

- Address the particular debt overhang problems of low-income countries, including the issue of enhancing their capacity to attract private investment;

- With respect to the debt problems of the middle-income countries, analyse the costs and benefits of alternative options for solving the problem of collective action by private creditors in order to facilitate debt restructuring and formulate concrete proposals on how to bring debt servicing obligations into line with debt servicing capacity;

- In the context of its policy-oriented analysis of all forms of foreign investment, analyse in particular the question of foreign portfolio investment and its contribution to development, as well as its interactions with domestic resource mobilization and with other forms of international investment such as FDI, its role in the generation of financial sustainability, and the policy implications thereof;

- Undertake technical assistance on debt management, through its DMFAS Programme, and strengthen the latter's links to the work of the World Bank, notably through the World Bank Debt Sustainability Module, which allows UNCTAD to intervene on a wider spectrum of debt management activities;

- In cooperation with other international and regional institutions, undertake technical assistance programmes on capital market development and other specific actions to strengthen the domestic financial infrastructure, with a view to assisting developing countries to mobilize stable sources of finance;

- In cooperation with the private sector, explore the feasibility of innovative financing mechanisms, including venture capital funds and other investment funds targeting low-income countries, as well as innovative forms of financing for environmental projects.

116. UNCTAD should further assist developing countries to collectively fashion and give voice to more pragmatic development strategies that include some of the policy instruments whose autonomous utilization has been eroded over the past decade or so. This involves the ability to pursue appropriate intervention at home when needed to prevent market failures and to manage them better when they occur. In such strategies, integration into the global economy should be treated as a means to development rather than an objective in its own right. External linkages should be seen as complementary to, and not a substitute for, the domestic forces of growth through capital accumulation and technological capacity building. Experience shows that carefully managed and phased economic integration into the world economy is the key to success. UNCTAD should provide a forum for the exchange of development experiences among developing countries and economies in transition. It should continue to undertake comparative work on development strategies with a view to identifying successful approaches and policy options and building consensus around these options. Such work should include strategies for integration into the global economy and strategies for poverty alleviation and empowerment of women.

B. Investment, enterprise and technology

117. Considering the rapid increase in investment flows worldwide and their emergence as one of the driving forces in the world economy, UNCTAD should continue to expand significantly its comparative advantage in dealing with international investment issues, particularly FDI, technology and enterprise development questions. It should aim at improving the understanding of developing countries and economies in transition with respect to policy choices in these areas; strengthening these countries' national abilities to formulate and implement policies, measures and action programmes in these areas; and promoting understanding of emerging issues, including the role of international arrangements, with a view to strengthening their ability to participate in discussions and negotiations. Particular account should be taken of the need to encourage cooperation among developing countries.

(i) Improving the understanding of the role of FDI, technological capacity-building and enterprise internationalization

118. In the area of investment, UNCTAD should:

- Conduct policy-oriented research on investment issues related to development, including on the interaction of FDI and domestic investment and the interrelationship between FDI and trade. In particular, it should conduct such research on the impact of FDI on industrialization, local entrepreneurship and the development of supply capacity generally; the role of FDI in resource mobilization, infrastructure development, maintaining environmental sustainability, export capacity-building and human resource development, keeping in view the importance of linkages and interaction between foreign and domestic firms (including SMEs); and issues relating to the responsibility of firms;

- Undertake policy-oriented research on issues related to attracting, and benefiting from, international investment, including the determinants of FDI; regulatory and policy frameworks and best practices in regard to attracting FDI, including in infrastructure sectors; government policies aimed at maximizing the positive and minimizing the possible negative impact of international investment; and export-oriented FDI;

- Examine the use of incentives to attract FDI with high technological content and export capacity and promote linkages in the host market. The role of double taxation treaties in promoting technology transfer and diffusion through FDI needs further exploration.

119. In the area of technology, UNCTAD's analytical work should aim at drawing lessons from experiences with the transfer and diffusion of technology through FDI and other channels with a view towards developing policy instruments for the transfer of technology. It should also seek to explore ways in which an environment conducive to the transfer and diffusion of knowledge can be fostered, as well as various modes and mechanisms of transfer and diffusion, including specific ways and means to facilitate access to environmentally sound technologies and corresponding know-how on favourable terms.

120. UNCTAD should analyse the impact on the transfer of technology of existing international agreements, including TRIPS, TRIMs, the Agreement on Subsidies, the GATS and the Convention on Biological Diversity. Selected issues concerning intellectual property rights should also be considered, in particular the implications of legal protection of results of biotechnological research and biological resources, including study of measures necessary to protect public health and nutrition.

121. UNCTAD should identify home country measures that encourage transfer of technology in various modes to developing countries, in particular to the least developed countries, including promotional measures for building up a sound and viable technological base (as referred to in Articles 66 and 67 of the TRIPS Agreement) and the better use by developing countries of spaces within the TRIMS and TRIPS Agreements that encourage such transfers.

122. In the related area of enterprise development, UNCTAD should collect, harmonize and analyse data and assist countries in identifying any conflicts between WTO commitments and national policies for SME development; assisting developing country SMEs to meet international standards and to participate in international standard-setting; identifying policy issues in accessing and benefiting from new technologies such as information technologies, electronic commerce, environmentally sound technologies (ESTs) and biotechnology, and designing networking, partnering and training programmes to foster these ends; exploring TNC-SME links; identifying new or improved mechanisms for financing SMEs; and enhancing the capacity and participation of women in terms of running small and medium-sized enterprises, thus contributing to poverty alleviation.

123. UNCTAD should conduct policy-oriented research on the implications of FDI, technological capacity-building and enterprise internationalization for competition and competitiveness. In particular, UNCTAD should examine the consequences of developments such as cooperation among firms in research and development (e.g. strategic alliances) and certain restrictive practices in technology transfer transactions for competition and the competitiveness of developing countries. In this context, UNCTAD should prepare guidelines on technology licensing arrangements in the light of international trade agreements.

124. UNCTAD should also contribute to increased transparency and financial disclosure through the development and use of internationally recognized accounting and auditing standards and

improved corporate governance among larger companies. UNCTAD should develop appropriate technical cooperation programmes in this field.

(ii) Strengthening developing countries' national ability to formulate and implement policies to attract and benefit from FDI, strengthen technological capacities and foster the development of enterprises

125. In the area of investment, UNCTAD should assist developing countries in attracting investment flows, in particular FDI, and in maximizing their net benefit, by helping them to formulate and implement policies and set up appropriate regulatory frameworks, with special emphasis on export-oriented FDI. Investment policy reviews can play a special role in this connection. UNCTAD should assist investment promotion agencies (IPAs) in attracting investment, either generally or in a targeted manner, taking into account the growing importance of non-traditional firms, industries and home countries in international investment, as well as in developing their capacity in the area of technical and human resource development. The exchange of experiences between IPAs through the World Association of Investment Promotion Agencies (WAIPA) should be encouraged. UNCTAD should also contribute to the promotion of investment among developing countries. UNCTAD should formulate special programmes to assist African and least developed countries, for example by following up on Africa Connect and undertaking the preparation of LDC investment guides and capacity-building. UNCTAD should also design proposals for home country measures that could be considered in programmes to support the efforts of developing countries to attract FDI and benefit from it.

126. In the area of technological capacities and enterprise development, UNCTAD should further assist countries in developing an integrated approach to investment, technology and enterprise development, and strengthen the innovative capacity of enterprises through the implementation of national policy reviews, upon request; and it should assist them, through training and other technical cooperation activities, in the development of human resources required for formulating and implementing integrated investment, technology and enterprise internationalization policies at the national level. In particular, it should contribute to the training of negotiators of technology agreements and the use of technology information (patent information) and information flows among science and technology organizations, including through the World Association of Industrial and Technological Organizations (WAITRO).

127. UNCTAD should expand and deepen the Empretec programme to build up entrepreneurial capabilities and innovative and competitive SMEs and to help resolve problems of access to markets, business skills, finance and technology.

(iii) Improving understanding of emerging issues, including the role of international arrangements for the purpose of attracting and benefiting from FDI, enhancing technological capacity and promoting enterprise development in a globalizing world economy

128. In the area of investment, UNCTAD should help strengthen understanding of the relationship between trade and investment, as well as of the role of international investment arrangements in the development process and of how such arrangements could contribute to development, including through facilitation of technology and enterprise development. Areas of

interest include bilateral investment treaties involving developing countries, the inclusion of investment matters in regional agreements, and the development dimension of international investment agreements.

129. In order to enrich international discussions with the concrete experience of countries and regions, and to promote the sharing and diffusion of international practice among policy-makers at the national level, UNCTAD should promote a policy dialogue and an exchange of views on investment environments through investment policy reviews, prepared at the request of the interested countries.

130. In the area of transfer of technology, UNCTAD should examine the issue of formulating guidelines/best practices for access to technology.

131. In the area of enterprise development, international consensus may also be needed increasingly in areas involving cross-border enterprise issues as a result of the internationalization of firms. This may require discussions on the need to harmonize policy approaches on specific enterprise issues.

C. International trade

132. UNCTAD's major objective in the area of international trade should continue to be to assist developing countries to integrate themselves more fully into, and derive benefits from, the international trading system. The focus of UNCTAD's work should aim at policy analysis and consensus building to identify more clearly the parameters of the development dimensions of the multilateral trading system in parallel with the new multilateral trade negotiations. Another objective of UNCTAD should be to support capacity building in developing countries so as to progressively enable these countries to become effective players in the multilateral trading system in terms of deriving full benefits from trade liberalization, enjoying their multilateral rights and complying with their multilateral obligations. UNCTAD should also identify, on the basis of research and empirical evidence and with development impact assessment, what the implications are of existing and emerging multilateral trade rules for the development prospects of developing countries.

133. Important elements of UNCTAD's work should be geared to supporting intergovernmental consensus in the area of trade by facilitating the setting-out of a positive agenda for developing countries in the forthcoming WTO multilateral trade negotiations. This includes identifying which international trade policy tools are more supportive of development efforts in a globalized world. UNCTAD should also identify the constraints that developing countries face in deriving equitable benefits from the trading system, including those relating to their structural impediments and financial vulnerability, as well as those following from imbalances in rights and obligations. Ways and means of addressing these imbalances should be identified. The role of regional cooperation and integration arrangements, their development potential and their relation to the multilateral trading system should be explored.

(i) Market access

134. UNCTAD's work should relate to:

- Maintaining and further improving the level of tariff-free or reduced-tariff access to markets in developed countries through national GSP schemes for all beneficiaries.

- Removing tariff and non-tariff barriers in export sectors of interest to developing countries, with emphasis given to tariff peaks and tariff escalation.

- The granting by developed countries of bound duty-free treatment for all products originating in LDCs, combined with a multi-donor programme to upgrade LDCs' production and export capacities and capabilities.

- Tightening the disciplines on anti-dumping and countervailing duties actions.

(ii) Trade in agriculture

135. UNCTAD should focus its efforts in the following areas:

- Identifying ways and means to improve market access of agricultural exports from developing countries, by identifying and examining: (i) tariff reduction approaches, with a view to effectively addressing problems of generally high agricultural tariffs, tariff peaks and tariff escalation, and taking into account that erosion of preferential market access can have negative implications for certain developing country exporters; (ii) measures to reduce non-tariff measures (e.g. reference prices) which still exist in the agricultural sector and affect exports from developing countries; (iii) guidelines on a major expansion of market access opportunities through substantial increases in trade volumes under tariff quotas so as to ensure enhanced market opportunities for developing countries; (iv) guidelines on tariff rate quota (TRQ) administration methods which would inhibit non-discriminatory practices and ensure market access opportunities for developing counties; (v) improvements in the use of SPS measures on a scientific basis.

- Identifying and examining ways and means to incorporate developmental aspects into domestic support commitments of developing countries, reflecting efforts to increase productivity and food security and the need to protect small and subsistence farmers.

- Analysing the impact, both positive and negative, of substantial reduction or elimination of export subsidies on developing countries, with particular attention being paid to the special concerns of LDCs, net food-importing developing countries (NFIDCs) and other small and vulnerable economies.

(iii) Trade in services

136. UNCTAD should help developing countries in identifying:

- The priority sectors where early trade liberalization should take place;

- The main trade barriers that developing countries face in those services sectors, especially those which limit developing country ability to export their services;

- The preconditions, at the domestic level, which are necessary for developing countries to benefit from trade liberalization in the services sector in general.

137. This analysis will greatly help developing countries in making sound proposals and requests in the framework of the forthcoming trade negotiations.

138. In the area of electronic commerce, UNCTAD should contribute to the understanding of proposals made in the area of electronic commerce at the international level. Analytical work should be complemented by capacity-building activities aimed at enhancing the abilities of developing countries to benefit from electronic commerce and to participate actively in international discussions on this issue.

(iv) Other possible areas of negotiations

139. UNCTAD should also provide analytical and technical support to developing countries in other possible areas of negotiations, including industrial tariffs, anti-dumping and countervailing measures, subsidies, safeguards, standards and technical regulations, dispute settlement mechanism, etc.

(v) Support for developing countries in new multilateral trade negotiations and of countries acceding to WTO

140. UNCTAD should actively support developing countries' participation in the new multilateral trade negotiations by assisting them in shaping and adapting their positive agenda, providing necessary analytical and technical inputs to their negotiating strategies, supporting their capacity-building process, and providing a forum for exchange of views and information. UNCTAD should continue to provide assistance to the countries acceding to WTO, contributing to their early accession and the universalization of the multilateral trading system.

(vi) Regional integration and the multilateral trading system

141. UNCTAD's work in this area should include the conceptualization of strategies available to particular economic groupings and the simulation of the effects of free trade areas on trade flows. UNCTAD should particularly examine the relationship of regional arrangements and groupings with the multilateral trading system.

142. UNCTAD should help developing countries in analysing and devising the most appropriate mechanisms for:

- Identifying new strategies at the regional level to enhance the competitiveness of developing countries, including in agreements with developed countries, and to improve their capacity to promote their trade interests in global negotiations;

- Achieving a high level of tariff dismantling within the regional groupings;

- Increasing their market access prospects for their goods and services inside and outside the regional groupings;

- Developing favourable rules of origin.

(vii) Special and differential treatment

143. To provide developing countries with a justified degree of flexibility through special and differential treatment to enable them to take those measures essential to their development policies, UNCTAD should examine means of linking special and differential treatment provisions to economic criteria. In doing so, attention should be paid to: (i) the experience accumulated in the implementation of the WTO Agreements; (ii) elaboration of additional special and differential treatment provisions placing emphasis on supply-side measures in order to foster the development of internationally competitive export supply capabilities and to encourage product diversification; (iii) linkage of further trade liberalization to transfer of technology requirements; and (iv) definition of special and differential treatment measures to redress the marginalization of LDCs.

(viii) Competition issues

144. UNCTAD should continue to help interested countries in developing their national regulatory and institutional framework in the area of competition law and policy.

145. UNCTAD's work in this area should, in cooperation with UNDP, strengthen the capacity of developing country competition and consumer protection institutions, as well as consumer organizations, and to help them educate the public in this field.

146. UNCTAD should continue to examine issues related to competition law and policy of particular relevance to development, including analytical work on restrictive business practices. It should prepare periodical reports on mergers and mega mergers in strategic sectors and their impact on developing countries, particularly on their competitiveness. UNCTAD should study in depth the developmental impact of possible international agreements on competition. UNCTAD should also examine issues concerning the introduction of special and differential treatment in competition and enterprise policies.

147. UNCTAD should also further study, clarify and monitor, including through specific country and case studies, the relationship between competition and competitiveness.

(ix) Strengthening supply capacities in export-oriented sectors of commodities, industry and services

Commodities

148. Given the importance of commodities to many developing countries for employment, income and export earnings, UNCTAD should enhance its support to developing countries in this area. UNCTAD's work should focus on:

- Identifying ways and means to expand the supply capacity of commodity producing countries, as well as obstacles hampering the development of processing industries, and assisting commodity-dependent developing countries to fully exploit commodity diversification as a major potential avenue to industrialization;

- Identifying the changes that are taking place in the dynamics and structure of international commodity markets, in order to make commodity-dependent countries more able to formulate policy responses to critical new developments and to negotiate with developed countries for effective cooperation;

- Providing insights into the complexities of international commodity chains so that the enterprises of these countries can position themselves optimally, maximize retained value added and optimize the dynamic effects of linkages, technologies and upgrading;

- Assisting in increasing market transparency and information flows that would improve the rationality of investments;

- Providing a forum where less efficient producers can meet with highly efficient ones to explore possibilities for cooperation and relocation of production, which would not only raise exports but also diminish downward pressures on prices;

- Assisting in the management of price risks by traders and producers, as well as in the utilization of structured finance instruments for the generation of additional resources which can be used for the development or diversification of the commodity sector.

- Providing technical assistance and policy advice on relevant mechanisms, including financial risk management instruments, to producers and users of oil and gas, given the volatility of oil and gas prices and its negative impact on the economies of both exporting and importing developing countries.

Manufactures and services

149. UNCTAD's work should focus on:

- Continuing to evaluate the opportunities for a dynamic development of export-oriented industries and services in developing countries, including LDCs; in particular, identifying services sectors of export interest to developing countries and ways to overcome infrastructure deficiencies hampering their development, including through the introduction of new methods of trade in services;

- Assisting developing countries in improving their supply capacity in the area of trade in services through, *inter alia*, human resource development, institutional capacity-building, improved access and use of new technologies, and development of adequate legislation;

- Analysing possibilities for enhancing market access for developing country exports of industrial products and services;

- Helping developing countries to shape strategies for their integration into regional and world markets as a major policy option for competitive industrial production and services.

(x) Trade and environment

150. UNCTAD's work should focus on seeking greater balance in the trade and environment agenda debate by highlighting issues of concern to developing countries and strengthening the development dimension. This in turn would require special attention being paid to the following areas of work:

- Identifying policies to address major constraints faced by many developing countries in responding to environmental challenges, such as lack of technical, financial, institutional and supply capacities, taking into account the environmental and developmental conditions of each country;

- Enhancing understanding of the economic and social implications of trade measures for environmental purposes for countries at different levels of development, including the effects of environmental requirements on developing countries' exports;

- Identifying specific capacity-building needs of developing countries and promoting a broad programme of capacity-building on trade, environment and development.

151. UNCTAD should also promote analysis and consensus building with a view to identifying issues that could yield potential benefits to developing countries. This should focus on:

- An examination of the economic and developmental implications of multilateral environment agreements and identification of ways to promote the effective implementation and use of enabling measures to achieve global environmental objectives;

- Ways to promote the indigenous development of and transfer of environmentally sound technologies (ESTs) to developing countries, including through the implementation of relevant provisions in the TRIPs Agreement, for example article 7 of that Agreement, in order to contribute to the promotion of technological innovation and to the transfer and dissemination of technology to the mutual advantage of producers and users of technological knowledge in a manner conducive to social and economic welfare and to a balance of rights and obligations;

- Strengthening the consistency between the provisions of the Convention on Biological Diversity and the TRIPs Agreement, in particular creating ways to promote and enhance cooperation on research and development on technologies associated with the utilization of biological resources, giving due recognition to the source of these resources in patent applications for technologies in accordance with the Convention on Biological Diversity and addressing the protection of indigenous knowledge;

- Examining the potential trade and developmental effects of environmental measures, taking into account the concerns of developing countries, particularly as regards potential effects on small and medium-sized enterprises (SMEs);

- Promoting trading opportunities for environmentally preferable products (EPPs);

- Ways to promote and support investment and trade in biological resources as a means of furthering the objectives of the Convention on Biological Diversity, such as the Biotrade Initiative;

- Addressing developing country concerns in the area of exports of domestically prohibited goods (DPGs);

- Strengthening the importance of adequately valuing natural resources with a view to enhancing the competitiveness of goods and services generated by those resources.

- Helping developing countries to better understand the trade and developmental effects of the introduction of genetically modified organisms into international markets, as well as to participate effectively in the negotiation and implementation of a protocol on biosafety under the Convention on Biological Diversity, and providing balanced information on issues related to biotechnology, including public awareness and participation, R+D capacity-building and legal and regulatory systems, in support of the work programme of the United Nations Commission on Science and Technology for Development.

- Continuing its work as task manager on trade and sustainable development for the United Nations Commission on Sustainable Development.

D. Service infrastructure for development and trade efficiency

(i) Trade and transport facilitation

152. UNCTAD'S work should build on its comparative advantage in the fields of applied economics of transport, trade facilitation and multimodal transport. UNCTAD must treat problems relating to the provision of, and access to, international transport services as an integral part of international support measures designed to enable the trade and industry of developing countries and particularly the least developed among them to participate more effectively in the globalization processes. This is all the more important as transport and procedural disadvantages suffered by small developing countries' shippers can only rarely be compensated for by preferential treatment but affect their competitive position directly and adversely.

153. Issues to be considered in UNCTAD relate both to supply-side dynamics, i.e. market access and policies relating to fleet development and sector efficiency, and to protection of users' interests in transport markets. UNCTAD's involvement would be complementary to and in support of the WTO negotiations and implementation of liberalization instruments in the context of GATS.

154. The major work undertaken by UNCTAD in recent years in the field of management information systems and logistics as applied to the transport sector, such as the Advance Cargo Information System (ACIS), should be continued, and efforts should be made to expand the use of such systems to reduce the cost of transport in foreign trade and to reduce excessive transit times. At the same time, it is important that developing countries' traders be afforded access to

appropriate management systems that will allow them to maintain control over goods in transit to foreign markets. The particular difficulties encountered by land-locked developing countries and transit developing countries deserve attention.

155. UNCTAD should help developing countries "leapfrog" some of the stages of logistics modernization by facilitating the introduction of powerful management tools using recent technological developments. UNCTAD should undertake studies on the implementation of multimodal transport rules, as well as develop and implement programmes to (1) build capacity to guarantee that new infrastructure/equipment investments are accompanied by adequate trade and transport facilitation measures; (2) enhance managerial skills through training; and (3) provide sound reference materials. UNCTAD can also provide a forum for discussion and analysis between advanced transport operators (public, parastatal or private) and those desiring to catch up. Implementation methodologies should be produced for use by those transport operators, transport users and government bodies wishing to benefit from such modern logistics management techniques and trade facilitation measures in order to modernize their door-to-door transport networks and upgrade their capacity to participate in international trade.

156. Rules and regulations governing carriers' liability for transport must be adapted to respond adequately to the challenges raised by the current technological and commercial developments and create certainty and predictability. UNCTAD should provide a forum to start a process of consultation aimed at proposing appropriate solutions. Equally, some international organizations have been active in preparing international rules and regulations on various aspects of electronic commerce. UNCTAD can assist developing countries in such endeavours through technical assistance activities and by keeping developments under review and proposing appropriate action as may be required.

(ii) Customs

157. UNCTAD's programme of Customs reform and automation, ASYCUDA, should continue to support the efforts of developing countries and countries in transition. UNCTAD should ensure that the most up-to-date and effective information technologies are taken into account in the implementation of Customs reform and automation projects.

(iii) Banking and insurance

158. UNCTAD should assist regulators and relevant industry associations in upgrading the regulatory and institutional framework for these sectors. It should participate in their institutional and capacity building and train both regulators and industry participants to adapt to international and best practices and to requirements under WTO/GATS. It should also assist them in introducing organized credit information systems, innovative finance and insurance instruments, and improving their access to trade-related finance.

(iv) Services for micro-enterprises

159. UNCTAD should play a catalytic role in promoting the development of financial infrastructures and services addressing the needs of micro-enterprise. Besides micro credit, adequate insurance and savings services specifically geared to meeting the demand of micro

entrepreneurs should also be fostered in developing countries and countries in transition. This could be done in particular by fostering partnerships between mainstream financial institutions, micro finance institutions and Governments in this area. UNCTAD's activities should focus on facilitating the access of micro finance institutions to international capital markets and on facilitating the flow of private funds towards the micro finance sector. The Governments and financial regulators of developing countries could benefit from UNCTAD's technical assistance in their efforts to adapt their regulatory environment to the specific requirements of the micro finance sector.

(v) Electronic commerce

160. UNCTAD should contribute to inform international debates on the impact of global information networks (including the Internet) on the structures, strategies and perspectives of enterprises and national economies in developing countries. Particular importance should be given to their impact on the enterprise sector, including corporate structures and the role of SMEs in global competition, as well as South-South trade and investment flows.

161. Policy-oriented analytical work should be carried out by UNCTAD on: (1) the impact of electronic commerce on trade policies; (2) the fiscal and financial implications of electronic commerce; (3) the implications for developing countries of the legal and regulatory aspects of electronic commerce; and (4) the impact of electronic commerce on employment, productivity and economic growth. UNCTAD should also provide basic information and statistical data on electronic commerce flows, as well as on their underpinnings, including developing countries' access to basic telephonic services and Internet connectivity.

162. UNCTAD should continue to support the Global Trade Point Network, assisting Trade Points in their efforts to facilitate the access of enterprises, especially small and medium-sized enterprises, to modern tools for trade and efficient trade-supporting services. UNCTAD should also provide support for cooperation arrangements among Trade Points at the regional and global levels.

(vi) Human resources development

163. Given the vital importance of national capacity-building in developing countries, UNCTAD should increase its activities within its field of competence in support of human resources development. UNCTAD should play a role in providing information to enterprises and Governments regarding: (a) the linkages between human resource development (HRD) activities, particularly training, and the performance of enterprises; (b) long-term planning for HRD activities, coordination of training activities and collaboration or development of partnerships between enterprises, including private-public sector partnerships, and the creation of knowledge resource centres to coordinate information supply and demand; (c) formulation of HRD policies and strategies to be followed by developing countries.

164. UNCTAD should also contribute to the enhancement of the tools by which HRD policies are put into practice. In cooperation with other international organizations, UNCTAD has done pioneering work to enhance standards and establish networks for the conduct of training adapted to development needs. Its commercial diplomacy, TRAINMAR and TRAINFORTRADE

programmes have a major potential to help countries cooperate to meet developmental needs through the conduct of their own training in the field of trade-supporting services. Continuation of these programmes is essential for the networks to thrive, but the networks will also be a source of training in all areas where UNCTAD is working for development.

E. Technical cooperation

165. Technical cooperation is one of the three main functions of UNCTAD. It represents the practical manifestation of the organization's commitment to national, regional and global development. The effectiveness and relevance of UNCTAD's technical cooperation depend on its integration with the secretariat's policy analysis and the work of the intergovernmental machinery. The basic parameters for this approach were established by UNCTAD IX and subsequently spelt out in the UNCTAD Technical Cooperation Strategy adopted by the Trade and Development Board in June 1997. The full realization of effective interrelationships among the three basic functions of UNCTAD requires greater efforts in the area of technical cooperation, as follows:

- Additional measures are required to ensure concentration of effort on technical cooperation that effectively exploits the interrelationship between policy analysis, intergovernmental deliberations and operational activities. Activities should be demand-driven and have as their ultimate objective the strengthening of capacity-building for trade, investment and development in developing countries. The rolling three-year technical cooperation plan should be improved and utilized for that purpose;

- The assuredness and predictability of financial resources for UNCTAD's technical cooperation should be enhanced, particularly through continued support from UNDP, the regular budget and unearmarked contributions from bilateral donors, in order to facilitate the planning and execution of operational programmes and promote a greater degree of coherence in activities;

- The provisions of paragraph 95 of "A Partnership for Growth and Development" regarding the distribution of UNCTAD's technical cooperation should be implemented in full;

- The cost-effective delivery of programmes should be further enhanced, including through greater utilization of capacities of developing countries in the implementation of specific activities and by enhanced monitoring and evaluation.

166. UNCTAD's technical cooperation should focus on:

- Capacity-building to assist developing countries integrate into the global economy in a manner consistent with their development needs;

- Preparations for multilateral negotiations on trade and the implementation of the results thereof; and

- Support for cooperation among developing countries at the subregional, regional and interregional levels.

167. Since UNCTAD lacks field representation at the country level, the UNCTAD secretariat should be provided with the necessary resources to develop practical modalities for its effective contribution to the preparation of the UNDAF and the Common Country Assessment (CCA) so as to ensure that it reflects the technical assistance provided by UNCTAD in the field of trade and development.

168. Donor countries and others in a position to do so are urged to contribute to the Trust Fund for LDCs in order to make available the resources required to carry out technical assistance programmes in LDCs. UNCTAD should play an active role in the expeditious implementation of the Integrated Framework for Trade-related Technical Assistance for LDCs adopted by the High-level Meeting.

169. UNCTAD, in collaboration with WTO, ITC and the donor community, should strive to expand the Joint Integrated Technical Assistance Programme (JITAP/UNCTAD/WTO/ITC) to include more African countries.

170. A centre with research, technical support and teaching capacity should be established in the UNCTAD secretariat to develop a specific technical cooperation programme relating to key subjects appearing on the new international economic agenda. Implementation should be based on different delivery modes, in particular regular courses in Geneva for officials from developing countries.

171. In this respect, we would welcome the continuation of the assistance that the UNCTAD secretariat provides to the Palestinian people, and we underline the necessity of intensifying this assistance because of the importance it has in terms of supporting the Palestinian national economy and assisting Palestine.